State kills buyout of UniSource
Commission calls it too risky

Max Jarman
The Arizona Republic
Dec. 22, 2004 12:00 AM

State regulators late Tuesday rejected the $3 billion sale of the state's third-largest electric utility to an investor group, saying that it created too many uncertainties and risks for ratepayers.

The proposed leveraged buyout of UniSource Energy Corp., the parent of Tucson Electric Power Co., offered few benefits to consumers and could have overloaded the company with debt, they concluded.

Tucson Electric supplies electricity and natural gas to about 550,000 customers in Tucson, Flagstaff and other parts of the state.

"At bottom line, the deal did not have sufficient tangible benefits for most ratepayers, and the risk of calamity was all too great," Arizona Corporation Commissioner Kris Mayes said.

After a two-day hearing in Tucson, the five-member commission voted 4 to 1 to reject the proposed buyout by an investment partnership.

Commission Chairman Marc Spitzer said he believed the benefits of the buyout outweighed the risks and voted against the motion that scuttled the transaction.

UniSource Chairman James S. Pignatelli called the vote the "worst decision this commission has ever made." He said the company likely would ask the commission to reconsider its vote.

Under the proposal, the utility's balance sheet would have been strengthened by a $260 million capital infusion, including repayment of $95 million TEP had lent UniSource. But at the holding-company level, $400 million in debt would be assumed.

A partnership led by private equity investor Kohlberg Kravis Roberts & Co. offered $25.25 per share for UniSource, or about $850 million. It also agreed to assume about $2 billion in debt.

The deal represented a $200 million premium for stockholders, who endorsed the sale.

But an ACC administrative law judge who evaluated the transaction concluded the deal offered nothing to TEP customers, who accepted higher rates to keep the company from filing for bankruptcy in the 1990s. Judge Jane Rodda concluded the sale was not in the public interest and recommended the commission reject it.

The commission's Spitzer had offered a compromise that attempted to allay many of the concerns expressed by Rodda and the consumer watchdog Residential Utility Consumer Office. That plan, to which the prospective buyers had tentatively agreed, called for additional capital and safeguards to protect TEP if its parent company was forced into bankruptcy.

But in the end, the other commissions could not endorse the transaction and rejected Spitzer's amendment.

Commissioner Jeff Hatch-Miller said he could see advantages and disadvantages to the sale but felt there were too many uncertainties for him to take a "gamble" and vote in favor of the deal.

"There was too much uncertainty about the financial health of the company," he said.